



Proposed Pension Reform

City of Atlanta – Mayor's Office
Presentation to AFR
March 22, 2011

DRAFT

IMPORTANT NOTE: This document contains only a summary discussion of the City's pension plans and certain changes to those plans currently being considered by the City. Not all terms of the pension plans which affect the calculation of and eligibility for pension benefits are discussed in this summary. For a complete discussion of the terms of the pension plans and how those terms apply to you, please direct your attention to the pension plans themselves. Also, to the extent there are any differences between this summary description and the terms of the pension plans, the pension plans will control.

Updated March 28, 2011



Guiding principles and ground rules for pension system reform

Provide a pension promise to employees that the City can keep

- Reduce the annual pension cost in the budget
- Reduce and pay off the City's unfunded liability
- Diversify the City's risk and the employee's risk
- Competitively align with other local jurisdictions
- Leave the benefits accrued to date unaffected
- Promote incentives to save for healthy retirement
- Provide a long-term and sustainable solution for supporting employee retirement



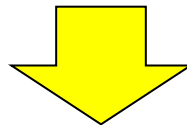
The administration has a two part proposal

I. Change the amortization period from 30-year open to 30-year closed

- It allows the plan to become fully funded at the end of that span
- Closing the amortization reduces the City's unfunded liability by \$2.5B in 2041
- This change requires future increases in annual required contribution

II. Change the structure and cost of the pension plan offered to employees

- The administration proposes two options:
 - Option 1: Shift all employees in the DB plans to City's current 6% DC plan
 - Option 2: Shift all employees in the DB plans to a new 8% DC plan with Social Security opt-in



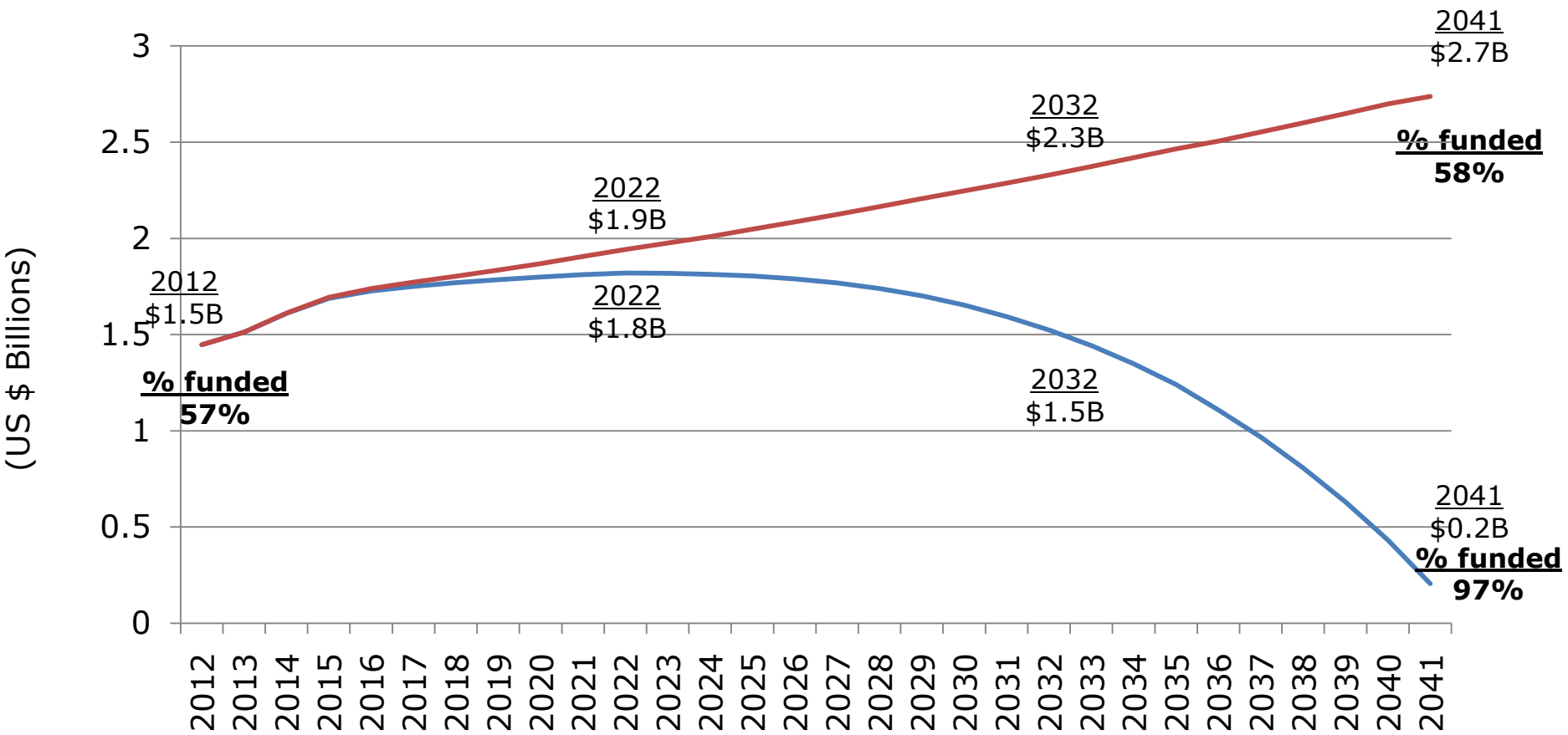
What this means for employees



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Switching to closed amortization will reduce Atlanta's unfunded liability (UAAL)

Unfunded Actuarial Accrued Liability (UAAL)

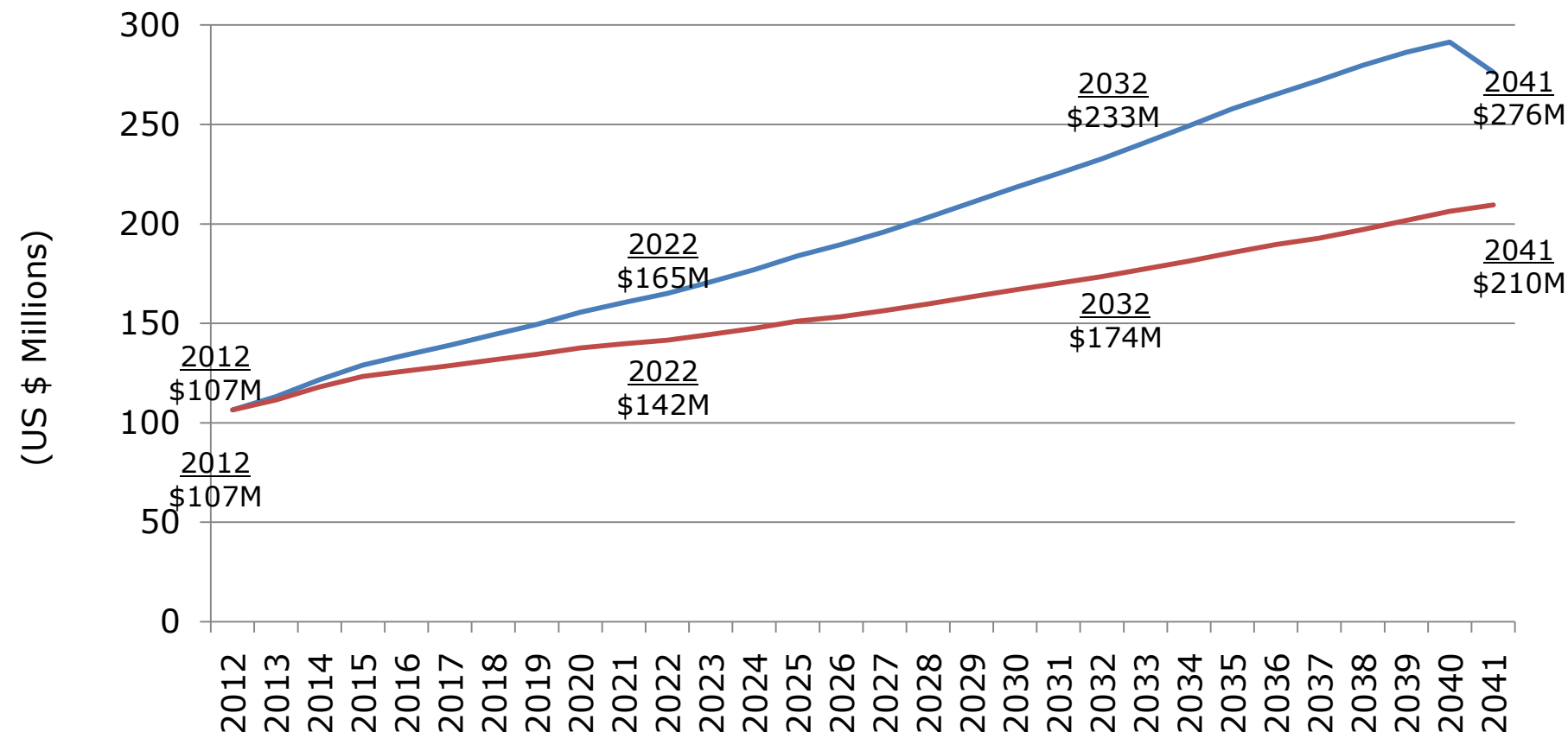


Note: Numbers reflect data with no changes in assumptions (i.e., 7.75%/8.00%); Closing amortization leads to elimination of UAAL
Source: Segal & Co.



However, closed amortization will also require increased annual contributions

Annual Required Contribution (ARC)



Note: Numbers reflect data with no changes in assumptions (i.e., 7.75%/8.00%)

Source: Segal & Co.



The administration proposes two options

OPTION 1: Shift all employees in the DB plans to City's current 6% DC plan provided to those above grade 18

- Requires a 6% employee contribution
- Requires a 6% employer contribution
- No Social Security or Defined Benefit
- Has been the pension plan for all City employees above grade 18 hired after 2001
- The Mayor and the Cabinet are in this plan
- No limit on benefit as percent of salary
- Reduces the City's annual contribution cost by \$27M-31M in the first 5 years
- Reduces the unfunded liability by \$2.5B in 2041 assuming closed amortization

OPTION 2: Shift all employees in the DB plans to a new 8% DC plan with Social Security

- Employees given the option to enter Social Security which requires 6.2% contribution from both the employee and employer
- Employer matches up to 8% of employee contributions with Social Security opt in
- Employer matches up to 12% of employee contribution with Social Security opt out
- No limit on benefit as percent of salary
- Reduces the City's annual contribution cost by \$12M-18M in the first 5 years
- Reduces the unfunded liability by \$2.5B in 2041 assuming closed amortization

Changes are NOT being proposed to:

- Earnings accrued
- Vesting period
- Retirement age
- Retiree pensions
- Salary calculation
- COLA



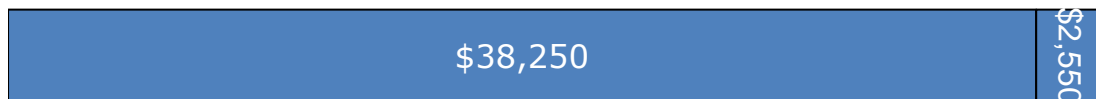
Option 1: Benefits that have already been accrued will not change (1A) ^{DRAFT}

Example employee profile

- Current age 55
- Final average salary = \$51,000
- Planning to retire after 30 total YOS

No change
to plan

Annual
annuity

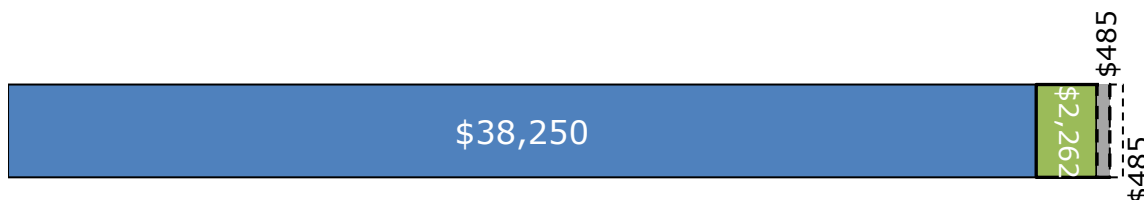


Total annuity
= **\$40,800**

80% *salary*
replacement

Shift to
Option 1

Annual
annuity



	Employee contribution		
	8%	11%	14%
Annuity	\$40.5K	\$41.0K	\$41.5K
Salary %	79%	80%	81%

Legend

- Benefit resulting from current DB plan
- Additional benefit from 11% employee contribution
- New plan with 8% employee contribution
- Additional benefit from 14% employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit
Total annuity: Current DB Formula ($3.0\% \times 25 \text{ years of service} \times \$51\text{K salary} = \$38,250$); because of a higher multiplier (3.0% vs. 2.5% for general), total annuity is capped at 80% for AFR (Total annuity = $\$51\text{K} \times .8 = \$40,800$)
Source: Segal & Co.



Option 1: Benefits that have already been accrued will not change (1B) ^{DRAFT}

Example employee profile

- Current age 50
- Final average salary = \$51,000
- Planning to retire after 30 total YOS

No change
to plan

Annual
annuity

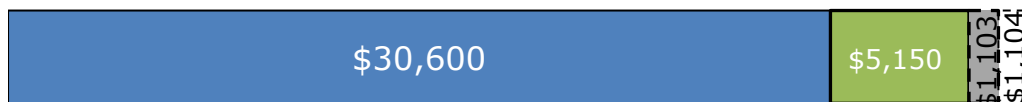


Total annuity
= **\$40,800**

80% *salary*
replacement

Shift to
Option 1

Annual
annuity



	Employee contribution		
	8%	11%	14%
Annuity	\$35.8K	\$36.9K	\$38.0K
Salary %	70%	72%	74%

Legend

- Benefit resulting from current DB plan
- New plan with 8% employee contribution
- Additional benefit from 11% employee contribution
- Additional benefit from 14% employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit

Total annuity: assumes 3.0% multiplier

Source: Segal & Co.



Option 1: Benefits that have already been accrued will not change (1C) ^{DRAFT}

Example employee profile

- Current age 45
- Final average salary = \$51,000
- Planning to retire after 30 total YOS

No change
to plan

Annual
annuity



Total annuity
= **\$40,800**

80% *salary*
replacement

Shift to
Option 1

Annual
annuity



	Employee contribution		
	8%	11%	14%
Annuity	\$31.8K	\$33.7K	\$35.6K
Salary %	62%	66%	70%

Legend

- Benefit resulting from current DB plan
- New plan with 8% employee contribution
- Additional benefit from 11% employee contribution
- Additional benefit from 14% employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit

Total annuity: assumes 3.0% multiplier

Source: Segal & Co.



Option 1: Benefits that have already been accrued will not change (1D) ^{DRAFT}

Example employee profile

- Current age 40
- Final average salary = \$51,000
- Planning to retire after 30 total YOS

No change
to plan

Annual
annuity



Total annuity
= **\$40,800**

80% *salary*
replacement

Shift to
Option 1

Annual
annuity



	Employee contribution		
	8%	11%	14%
Annuity	\$28.8K	\$31.7K	\$34.6K
Salary %	57%	62%	68%

Legend

- Benefit resulting from current DB plan
- New plan with 8% employee contribution
- Additional benefit from 11% employee contribution
- Additional benefit from 14% employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit

Total annuity: assumes 3.0% multiplier

Source: Segal & Co.



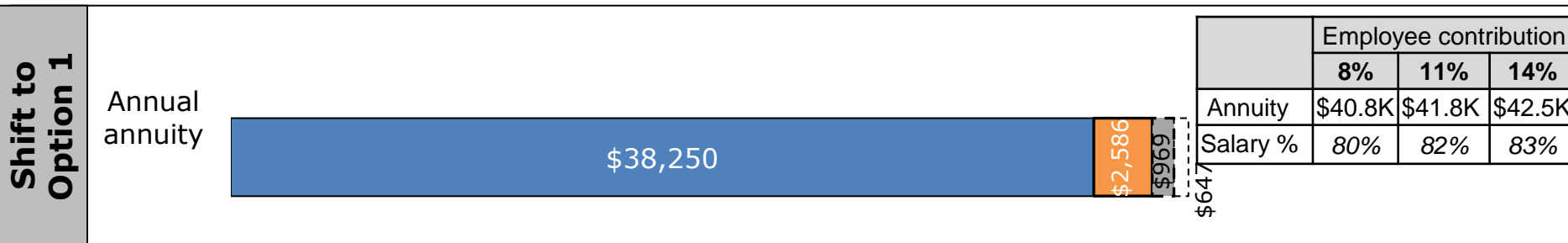
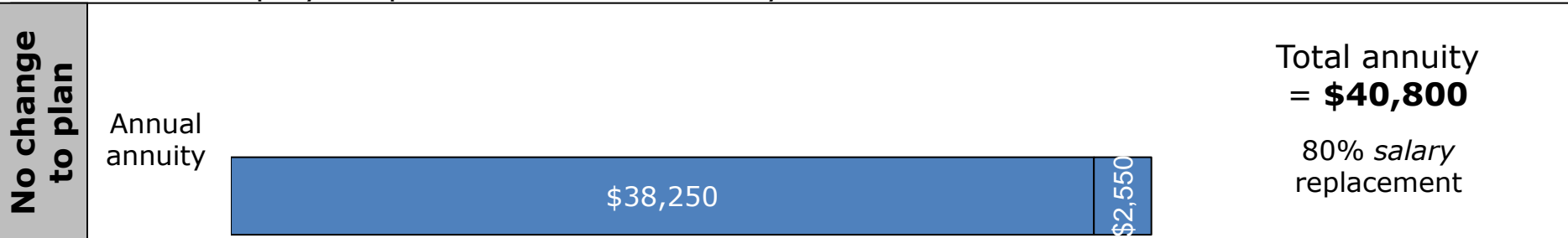
Option 2: Benefits that have already been accrued will not change (2A)

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Example employee profile

- Current age 55
- Final average salary = \$51,000
- Planning to retire after 30 total YOS

*Assumes employee opts out of Social Security



Legend

- Benefit resulting from current DB plan
- Additional benefit from 11% employee contribution
- New plan with 8% employee contribution
- Additional benefit from 14% employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit
Total annuity: assumes 3.0% multiplier
Reflects \$51K average annual salary, for option 2 part "b" annuity, instead of \$45K
Source: Segal & Co.



Option 2: Benefits that have already been accrued will not change (2B) ^{DRAFT}

Example employee profile

- Current age 50
- Final average salary = \$51,000
- Planning to retire after 30 total YOS

*Assumes employee opts out of Social Security

No change
to plan

Annual
annuity



Total annuity
= **\$40,800**

80% *salary*
replacement

Shift to
Option 1

Annual
annuity



	Employee contribution		
	8%	11%	14%
Annuity	\$36.5K	\$38.7K	\$40.2K
Salary %	72%	76%	79%

Legend



Benefit resulting from
current DB plan



New plan with 8%
employee contribution



Additional benefit from 11%
employee contribution



Additional benefit from 14%
employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit

Total annuity: assumes 3.0% multiplier

Reflects \$51K average annual salary, for option 2 part "b" annuity, instead of \$45K

Source: Segal & Co.



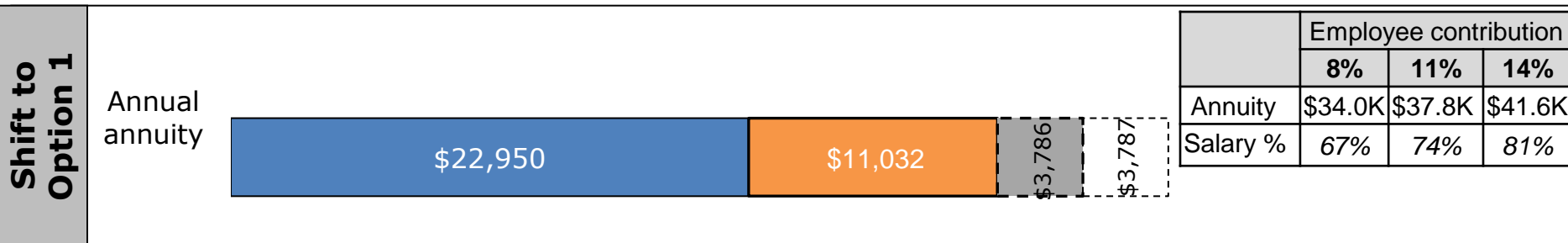
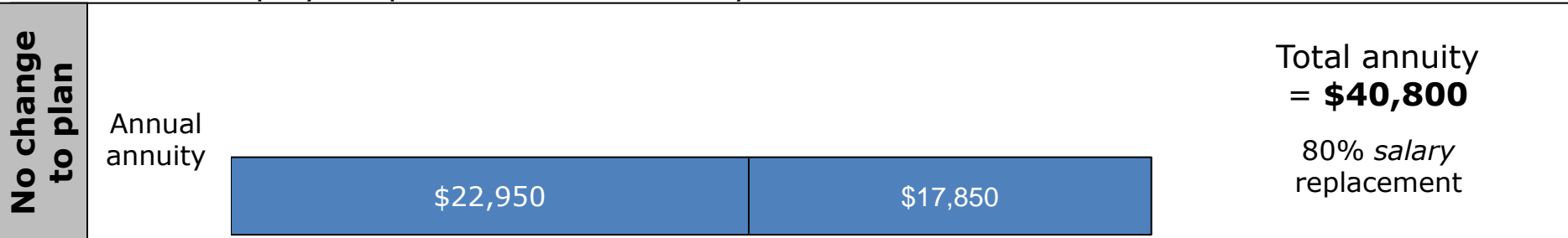
Option 2: Benefits that have already been accrued will not change (2C)

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Example employee profile

- Current age 45
- Final average salary = \$51,000
- Planning to retire after 30 total YOS

*Assumes employee opts into Social Security



Legend

- Benefit resulting from current DB plan
- New plan with 8% employee contribution
- Additional benefit from 11% employee contribution
- Additional benefit from 14% employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit
Total annuity: assumes 3.0% multiplier
Reflects \$51K average annual salary, for option 2 part "b" annuity, instead of \$45K
Source: Segal & Co.



Option 2: Benefits that have already been accrued will not change (2D) ^{DRAFT}

Example employee profile

- Current age 40
- Final average salary = \$51,000
- Planning to retire after 30 total YOS

*Assumes employee opts into Social Security

No change
to plan

Annual
annuity



Total annuity
= **\$40,800**

80% *salary*
replacement

Shift to
Option 1

Annual
annuity



	Employee contribution		
	8%	11%	14%
Annuity	\$29.2K	\$35.0K	\$40.8K
Salary %	57%	69%	80%

Legend

- Benefit resulting from current DB plan
- New plan with 8% employee contribution
- Additional benefit from 11% employee contribution
- Additional benefit from 14% employee contribution

Note: Shows 5% annual return; Assumes employee maintains a flat salary; Shows inflation adjusted DC benefit
Total annuity: assumes 3.0% multiplier
Reflects \$51K average annual salary, for option 2 part "b" annuity, instead of \$45K
Source: Segal & Co.



Additional employee profiles – Option 1

Age	Current service	Salary	Part 'A' annuity	Part 'B' DB/DC annuity				Total annuity			
				No change	8% EE contrib	11% EE contrib	14% EE contrib	No change	8% EE contrib	11% EE contrib	14% EE contrib
55	25	\$51,000	\$38,250	\$2,550	\$2,262	\$2,747	\$3,232	\$40,800	\$40,512	\$40,997	\$41,482
50	20	\$51,000	\$30,600	\$10,200	\$5,150	\$6,253	\$7,357	\$40,800	\$35,750	\$36,853	\$37,957
45	15	\$51,000	\$22,950	\$17,850	\$8,835	\$10,728	\$12,621	\$40,800	\$31,785	\$33,678	\$35,571
40	10	\$51,000	\$15,300	\$25,500	\$13,538	\$16,439	\$19,341	\$40,800	\$28,838	\$31,739	\$34,641
35	5	\$51,000	\$7,650	\$33,150	\$19,541	\$23,729	\$27,916	\$40,800	\$27,191	\$31,379	\$35,566
30	0	\$51,000	\$0	\$40,800	\$27,202	\$33,031	\$38,861	\$40,800	\$27,202	\$33,031	\$38,861

Note: Shows 5% annual return; Assumes employee maintains a flat salary (for purposes of modeling); Shows inflation adjusted DC benefit

Source: Segal & Co.



Additional employee profiles – Option 2 with Social Security opt out

Age	Current service	Salary	Part 'A' annuity	Part 'B' DB/DC annuity				Total annuity			
				No change	8% EE contrib	11% EE contrib	14% EE contrib	No change	8% EE contrib	11% EE contrib	14% EE contrib
55	25	\$51,000	\$38,250	\$2,550	\$2,586	\$3,555	\$4,202	\$40,800	\$40,836	\$41,805	\$42,452
50	20	\$51,000	\$30,600	\$10,200	\$5,886	\$8,093	\$9,564	\$40,800	\$36,486	\$38,693	\$40,164
45	15	\$51,000	\$22,950	\$17,850	\$10,097	\$13,884	\$16,408	\$40,800	\$33,047	\$36,834	\$39,358
40	10	\$51,000	\$15,300	\$25,500	\$15,472	\$21,275	\$25,143	\$40,800	\$30,772	\$36,575	\$40,443
35	5	\$51,000	\$7,650	\$33,150	\$22,333	\$30,708	\$36,291	\$40,800	\$29,983	\$38,358	\$43,941
30	0	\$51,000	\$0	\$40,800	\$31,088	\$42,747	\$50,519	\$40,800	\$31,088	\$42,747	\$50,519

Note: Shows 5% annual return; Assumes employee maintains a flat salary (for purposes of modeling); Shows inflation adjusted DC benefit

Source: Segal & Co.



Additional employee profiles – Option 2 with Social Security opt in

Age	Current service	Salary	Part 'A' annuity	Part 'B' DC/DB annuity				Part 'B' SS annuity	Total annuity			
				No change	8% EE contrib	11% EE contrib	14% EE contrib		No change	8% EE contrib	11% EE contrib	14% EE contrib
55	25	\$51,000	\$38,250	\$2,550	\$582	\$1,551	\$2,521	\$3,972	\$40,800	\$42,804	\$43,773	\$44,743
50	20	\$51,000	\$30,600	\$10,200	\$1,324	\$3,531	\$5,738	\$7,068	\$40,800	\$38,992	\$41,199	\$43,406
45	15	\$51,000	\$22,950	\$17,850	\$2,272	\$6,058	\$9,845	\$8,760	\$40,800	\$33,982	\$37,768	\$41,555
40	10	\$51,000	\$15,300	\$25,500	\$3,481	\$9,283	\$15,086	\$10,428	\$40,800	\$29,209	\$35,011	\$40,814
35	5	\$51,000	\$7,650	\$33,150	\$5,025	\$13,400	\$21,774	\$12,096	\$40,800	\$24,771	\$33,146	\$41,520
30	0	\$51,000	\$0	\$40,800	\$6,995	\$18,653	\$30,311	\$13,776	\$40,800	\$20,771	\$32,429	\$44,087

Note: Shows 5% annual return; Assumes employee maintains a flat salary (for purposes of modeling); Shows inflation adjusted DC benefit
Source: Segal & Co.



Historical funding levels for the City's pension funds over the last 10 years

Funded % (MVA/AAL)	Actuarial Value of Assets/Actuarial Accrued Liability		
Valuation Date	Police	Fire	General
1/1/2000	96.03%	92.69%	76.42%
1/1/2001	91.84%	91.14%	71.77%
1/1/2002	74.43%	83.09%	63.07%
1/1/2003	63.04%	68.61%	56.30%
1/1/2004	72.06%	77.80%	60.73%
1/1/2005	74.52%	78.60%	63.90%
1/1/2006	62.29%	65.29%	54.83%
1/1/2007	68.09%	68.41%	57.81%
1/1/2008	67.47%	67.62%	56.18%
1/1/2009	52.34%	48.01%	52.80%